

Water Utilities

Price:	\$46.34
Fair Value Estimate:	\$70.00
52-Week Range:	\$34.79 - \$54.52
Market Cap (MM):	9,999
Shr./O/S-Diluted (mm):	215.8
Average Daily Volume:	1,199,373
Book Value:	\$17.90
Dividend:	\$0.94
Yield:	2.0%

FYE: Dec	2019A	2020E	2021E
EPS:	\$1.47A	\$1.56E	\$1.65E
Prior EPS:		NC	\$1.70
P/E Ratio:	31.5x	29.7x	28.1x

Quarterly EPS:

Q1	\$0.28A	\$0.21E	\$0.59E
Q2	\$0.37A	\$0.20E	\$0.20E
Q3	\$0.48A	\$0.30E	\$0.30E
Q4	\$0.34A	\$0.53E	\$0.56E
EPS: adjusted			

Quarterly Revenue (M):

Q1	\$201A	\$207E	\$711E
Q2	\$219A	\$392E	\$423E
Q3	\$244A	\$367E	\$398E
Q4	\$226A	\$597E	\$635E
Year:	\$890A	\$1,562E	\$2,168E



February 28, 2020

Essential Utilities Inc.

(WTRG) - BUY

4Q19 Results & 2020 Guidance On Target; Maintain BUY Rating, \$70 Fair Value

PORTFOLIO MANAGER BRIEF

WTR's 4Q19 results met our expectations (top and bottom line), and forward proforma EPS guidance for 2020 was also on target. Looking forward, we've made minor adjustments to our forward estimates (see table, this page) and we maintain our BUY rating and \$70 Fair Value on WTR shares.

ANALYST NOTES

- 4Q19 Results Met Expectations.** Revenues of \$226MM and adjusted EPS of \$0.34 met our expectations (consensus was \$222MM and \$0.30, respectively). 4Q19 results for water utilities are a seasonally weak period and rarely impact water utility estimates or valuations.
- Peoples Gas Update; Just a Little Bit Longer.** The Peoples Gas transaction is now expected to close on March 16, 2020, an unfortunate development given Q1 is the seasonally strongest period for Mid-Atlantic gas utilities.
- Long Awaited 2020 Guidance Arrives.** Given the delays in closing the Peoples Gas transaction, Essential Utilities is offering pro-forma adjusted 2020 EPS guidance in a range of \$1.53 to \$1.58, which assumes ownership of Peoples Gas from January 1st (we assume management did this to provide a range of full year earnings potential and to aid analysts in modeling estimates). The company expects to see an EPS CAGR of 5%-7% over the next 3-year period.
- Adjusting Estimates.** We made minor adjustments to our forward estimates (see table, this page). Those estimates are what we think the company will actually report on an adjusted basis, not pro-forma. Our proforma adjusted EPS is \$1.56, with the difference between the two being the exclusion of gas results in 1Q20.
- Summary/Valuation.** 4Q19 results and 2020 guidance turned out as anticipated. Rate case activity remains strong, with 3 states receiving rate awards and infrastructure surcharges totaling \$4.8MM (the company has other rate activity pending in 4 states requesting \$8.3MM). The acquisition pipeline remains full, and CAPEX trends are robust. 2020 is unfolding as we expected, which required minimal adjustments to estimates. In terms of valuation, we continue to forecast Essential's 2030 dividend at \$1.93, which when pegged to our expected U.S. 10-year T-Note yield of 1.5%, generates a Fair Value of \$70. We maintain our BUY rating on Essential Utilities.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Michael Gaugler, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Essential Utilities Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Essential Utilities Inc..

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Essential Utilities Inc. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Essential Utilities Inc. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Essential Utilities Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

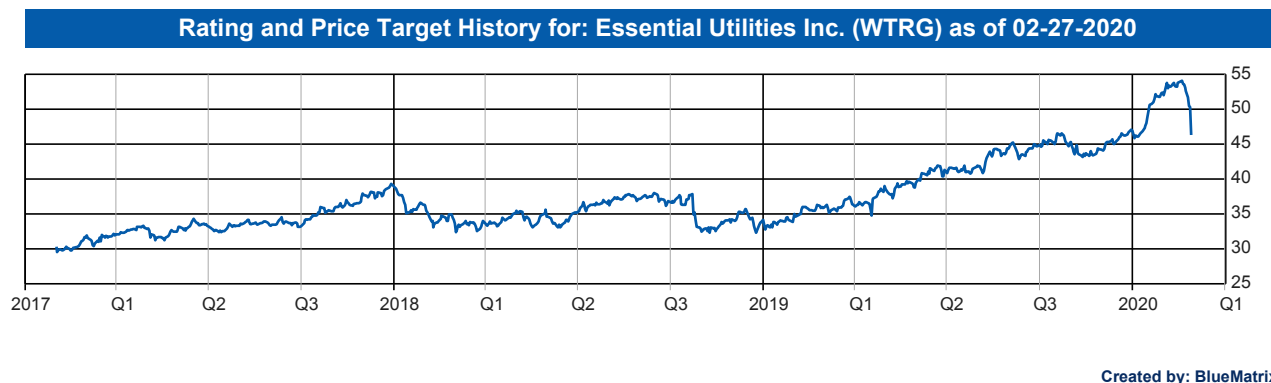
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 12/31/2019

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	167	51.38	35	20.96
NEUTRAL [N]	157	48.31	23	14.65
SELL [S]	1	0.31	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

Janney Montgomery Scott LLC, is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

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